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Message Text

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COME-00 DODE-00 EB-11 FPC-01 H-03 INR-10 INT-08 L-03

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SUBJECT: CHIRAC ADDRESS TO NATIONAL ASSEMBLY - ECONOMIC ASPECTS

1. SUMMARY: A CONSIDERABLE PORTION OF PRIME MINISTER CHIRAC'S MAIDEN SPEECH TO FRENCH ASSEMBLY ON JUNE 5 ADDRESSED ECONOMIC PROBLEMS. ON THE INTERNAL SIDE, MACRO-ECONOMIC POLICIES WOULD IN SHORT TERM BECOME MORE ANTI-INFLATIONARY, THOUGH GROWTH WOULD RETAIN ITS EMPHASIS IN LONGER TERM. SUBSTANTIAL TAX REFORM AND NEW SOCIAL PROGRAMS WERE ENVISAGED. PM CHIRAC'S LIMITED COMMENTS ON EXTERNAL ECONOMIC RELATIONS STRUCK FAMILIAR NOTE BY CITING "INTERNATIONAL MONETARY DISORDERS," ENGENDERED BY US PAYMENTS DEFICITS AS CAUSE OF OIL PRICE INCREASES AND WORLD-WIDE INFLATION. END SUMMARY.

2. PM CHIRAC'S COMMENT ON CURRENT ECONOMIC SITUATION CENTERED EXCLUSIVELY ON INFLATION. PREVIOUSLY NO WORSE THAN OTHER DEVELOPED COUNTRIES, SITUATION HAD RECENTLY
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DETERIORATED. IN YEAR ENDING APRIL 1974, PRICES HAD GONE UP 13 PERCENT IN FRANCE -- 7 PERCENT IN GERMANY.

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NO DEMOCRATIC COUNTRY DESIRING SOCIAL JUSTICE COULD SURVIVE AND PROGRESS WITH WAGES AND PRICES ADVANCING 15 TO 20 PERCENT A YEAR.

3. NEW GOF ANTI-INFLATION PLAN, TO BE ANNOUNCED JUNE 12, WOULD USE EVERY AVAILABLE TOOL: CREDIT POLICY, PRICE CONTROLS, FISCAL POLICY AND MEASURES TO LIMIT ENERGY USE. SPECIFIC TAX MEASURES WOULD BE ADOPTED TO FINANCE NEW SOCIAL PROGRAMS, BUT ALSO TO BRAKE INFLATION BY MAINTAINING STRICT BUDGET BALANCE, WHICH IN THIS CASE MEANT LEAVING THE INFLATION INDUCED REVENUE INCREMENT AS A BUDGET SURPLUS.
4. NEW SET OF SOCIAL PROGRAMS WOULD BE ANNOUNCED JUNE 19 FOLLOWING COMPLETION OF ECONOMIC PACKAGE.
WORK WOULD PROCEED ON ELABORATING SEVENTH ECONOMIC PLAN (BEGINNING 1976). GROWTH WOULD CONTINUE A GOAL OF THE PLAN, BUT WOULD BE TEMPERED BY OTHER SOCIAL GOALS.

5. TAX REFORM GOT STRONG EMPHASIS IN THE SPEECH. NEED TO EQUALIZE TAX BURDEN FOR PEOPLE IN EQUIVALENT CIR-CUMSTANCES AND USE SYSTEM AS A MEANS OF REDISTRIBUTION WAS HIT ON AGAIN AND AGAIN.

6. PM CHIRAC OFFERED THE FOLLOWING STATEMENT ON INTER-NATIONAL MONETARY DEVELOPMENTS:

"OUR COUNTRY IS CONFRONTED WITH A TERRIBLE CHALLENGE, SPRINGING FROM THE DISORGANIZATION OF THE WORLD ECONOMIC SYSTEM, WHICH RISKS COMPROMISING THE RESULTS WE HAVE ACHIEVED. THE ORIGIN OF THIS DIS-ORGANIZATION IS THE ANARCHY WHICH HAS CHARACTERIZED THE INTERNATIONAL MONETARY SYSTEM FOR SEVERAL YEARS.
"THE PERSISTENCE OF A SUBSTANTIAL DEFICIT IN THE US BALANCE OF PAYMENTS AND THE CONSEQUENT CREATION OF A HUGE MASS OF LIQUID FUNDS, READY TO MOVE FROM ONE COUNTRY TO ANOTHER, PROGRESSIVELY DESTROYED THE MONE-TARY ORDER FOUNDED ON THE BRETTON WOODS AGREEMENTS. IT IS BECAUSE OF THIS CURRENT SITUATION THAT RAW MATERIALS PRODUCERS, AND NOTABLY OIL PRODUCERS, HAVE UNDERTAKEN
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A POLICY OF SHARP AND EXCESSIVE PRICE INCREASES."

6. PM CHIRAC ALSO NOTED THAT "BILL" FOR ENERGY WOULD BE HEAVY, 30 BILLION FRANCS PER YEAR. IT IS NOT CLEAR FROM TEXT, HOWEVER, WHETHER THIS IS EXPECTED ADDED COST OF ENERGY IMPORTS OR LIKELY DEFICIT. HE ALSO SAID FRANCE WOULD DO ALL IT COULD TO PROMOTE INTERNATIONAL COMMODITY AGREEMENTS FOR ALL PRIMARY COMMODITIES, WHICH WAS THE BEST WAY TO PROVIDE STABLE AND SATISFACTORY PRICES FOR FOOD AND RAW MATERIALS AND ASSIST DEVELOPING

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COUNTRIES THAT PRODUCE THESE COMMODITIES.
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